CRITERIA OF MARKETING EFFICIENCY[1]

Two points of view must be kept in mind in an attempt to analyze marketing efficiency. Such analysis may be directed from the point of view of the individual entrepreneur, or of particular classes of business men. This is commonly called the private point of view. Such investigations as those which have been carried on by the Bureaus of Business Research of Harvard and Northwestern universities are of this kind, as are most of the efforts of the United States Bureau of Markets, and of the Bureaus of Commercial Research maintained by some large business and trade organizations. Other analyses are carried out by investigators who are not interested in increasing the profits of individual firms or of particular classes of private business organization. They take what, for the lack of a better term, we may call the social or public point of view. Their aim is to study the social significance of marketing. In so far as they have any definite aim in mind other than the scientific search for truth, it is to determine how marketing can be carried on in such a way as to improve the economic status of the community as a whole. To such, marketing appears as a great mechanism for bringing goods from producer to consumer. This mechanism functions imperfectly at times and involves expensive processes. Consequently, it is worth study in order to determine whether it can be made to function more effectively and more economically.

The specific lines of research and even the immediate aims of those who take this latter point of view frequently, perhaps usually, coincide with those who are interested only as individuals, or as the representatives of a large class of enterprisers. But whereas those with the individual perspective are interested because they seek a means to increase individual profits, these latter are interested in individual success only in so far as it tends to the development of a more effective and a more economical distributive organization. This point of view is chiefly in mind in the following discussion. In the last analysis, this brings those of us who are individualistic in tendency to the point of view of the consumer. For the social end of marketing, as of production, is to gratify the wants of consumers as effectively and as economically as possible. And so, it is from the point of view of the investigator who sees marketing through the consumer's eyes that the criteria of marketing efficiency are now approached.

What, then, are the criteria for determining the efficiency of our market organization, and of the particular institutions of which it is composed? First among these must be considered the effectiveness with

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which the distributive service is rendered; then, the cost at which this service is performed, understanding cost to include actual money expenses plus whatever profits are made by those engaged in marketing, whether they be producer, consumer, middleman, or functional agency. And, finally, there must be considered the effect which this cost and these methods of performing this service have upon production and consumption. In other words, to determine the efficiency of our market organization we must answer such questions as these: Does the scheme meet our needs? Do we pay more for the performance of this service, even though it is well done, than we should? What effect does our system of market distribution have upon production and consumption? If the system is effective but costly, it is inefficient. So is it inefficient when it is cheap but ineffective. And even though the mechanism as devised results in the effective and economical distribution of commodities, it is not efficient if it exercises an unfavorable influence on either production or consumption.

It is evident that the first two criteria, service and cost, must usually be studied as one problem, although the emphasis of a particular investigation may be upon service, or upon the actual money cost, or on the trade or speculative profits involved in the performance of the service. The last criterion, the effect of the market organization upon production and consumption, involves some most interesting and illusive considerations. Considerations which the business man and the economist learned to appreciate only when the great war magnified their difficulty and increased the need for their immediate solution. The price fixers in particular had these problems before them.

Most of the problems we meet, perhaps all of them, raise broad questions of technical efficiency. One group of problems centers about the purely mechanical elements involved in transportation and storage. Among these are problems concerning the effectiveness of the facilities for shipping and warehousing, and concerning the mechanical equipment and physical layout of our markets. The difficulties caused by poor country roads, limited railway facilities, congested terminals, and ill-planned wholesale market areas raise such problems. One of the greatest problems we have to face in the market for agricultural products is found just here. How can we retain the advantages derived from concentrating at these central markets the forces of demand and supply which operate over a wide area, and at the same time eliminate the disadvantages of the physical congestion of the market plants which arises from the resulting tendency to force an enormous supply of actual goods through these markets.

Another group of problems concerns the methods by which title to goods is transferred from producer to consumer. Here are raised a

host of questions of the most vital importance. Among them are those which relate to the efficacy of our market news service, upon which we depend to keep demand and supply in equilibrium; those which relate to the adequacy of our price system to properly correlate the various factors in production and marketing; those which relate to the legal protection of the parties to an exchange; those which relate to the great costs involved in our modern methods of buying and selling, including the costs of standardization, inspection and grading when these are present, the increased costs of bargaining when they are absent, and the enormous costs of demand creation; and here, likewise, center the problems which arise from the presence of market risks and the necessity for market finance.

These two groups of problems concerning the technical efficiency of our market machinery, one arising out of what may be called the purely mechanical efficiency of the plant, the other arising out of what may be called the trade efficiency of the system of bargaining, are the problems which bear directly on those criteria of efficiency which are based on service and cost.

More difficult of analysis but no less important is that group of problems which relates to the reaction of the existing market institutions, mechanical and trade, upon production and consumption. This group includes the question of the effect of the use of standard grades, when it results in improved products and increased stability of income to producers. And here may be considered the effect upon production which occurs when the market organization secures to the producer what he considers to be a "just share" of the final selling price of his produce. Here is raised the whole gamut of questions concerning the results on production and consumption of market competition and of the effects of particular railway rate structures, basing points, postage stamp rates, commodity rates, rates based upon a compromise between value of the product, weight, distance, and the competition of other carriers and of outside markets. Here, likewise can be considered the effect of our finance and warehouse methods upon the production of perishable and seasonable commodities, as well as the reactions to large market areas which have increased the growth of large-scale and specialized production.

Turning to consumption, we find for investigation the tendency for modern distributive methods to make available to consumers a large variety of commodities and the tendency of modern selling methods to create in the mind of the consumer a demand for variety, quality, service, style, and seasonable goods.

Most of the criticism of modern marketing is really pointed directly or indirectly at our competitive regime as it now functions. Even the

important problems of the physical efficiency of transportation, and of the physical congestion of central market areas, are very closely bound up with the conditions of competition in a regime of private property. Most of the proposed remedies and reforms, which are of more than particular application, propose to eliminate our present competitive system, or they involve proposals leading to an increase in existing forms of control on the part of the government, or to an introduction or enlargement of the control exercised by producers and consumers through some form of coöperation or combination among the members of these classes.

For example, it has been shown that demand and supply are not properly related. As a consequence there occur what we popularly call periods of over and under production. These may occur in many lines at a single time and result in a general paralysis of business, or they may be found with particular products or in particular markets, as when there is a larger supply of apples than the market demands or when there is an excess supply of perishable fruit dumped into a particular market on a Saturday afternoon. It is contended, likewise, that the system is so developed that often the physically best or physically nearest producing areas are kept from supplying their logical markets, because no adequate means of contact are established or because transportation rates are constructed with a view to bringing distant areas into a more favorable competitive relationship. Again, consumers are so played upon by the competitive efforts of merchandisers that they are held to have developed extravagant and unwise demands. It is further contended, and often proved, that of a given price at a given time the producer (and in particular the farmer) gets too small a share. Or it is held, conversely, that with the producer receiving a particular price the consumer is forced to pay more than he should, or again that the producer may have goods to sell and the consumer desire to purchase them but the market machinery fails to bring about an exchange.

Two causes are, of course, given for the large spread between producer and consumer, inefficiency of method and the opportunity for withholding too large a margin of profit by the various intermediaries involved. Either, when true, may be caused by the failure of our competitive regime to develop good methods and to keep prices down to a necessary margin of profit.

Other wastes, which in some cases can be placed at the door of the competitive regime, but which more often perhaps are due to a failure to develop effective and economical mechanical equipment, are those involved when it does not pay producers to harvest and market products, when products deteriorate en route to market or after reaching it,

and when products occasionally are allowed to perish, even when they have gone well on their way to the final consumer, because it does not pay those who hold them to carry them further.

It is evident from these illustrations that the criticisms now leveled at the market organization hit at the heart of our competitive regime,—the effectiveness of our price system. Economists in general hold that economic progress is greater under a regime of competition than it is conceivable it could be under any other known or proposed. Briefly, they hold that the best men and the best processes and policies evolve, and that goods and services that are wanted are produced most effectively and most economically. As applied to marketing this means that the most efficient firms will survive, that the best channels of distribution and the best methods of selling will prevail, and that commodities in amount, kind, and quality demanded will be placed upon the market. Finally, as regards price and cost, competition will reduce price to costs, including a reasonable (socially necessary) profit, but keep it up to a point which will insure the required production. This ideal comes very far from being realized, particularly when conditions are changing so rapidly that attempted solutions of problems of production and marketing are often out of date when they are evolved. In consequence, the process of selection when working through price is for times like the present slow and expensive. For competition is slow to weed out the inefficient producers and distributers, and their methods. But the advocates of the existing system, while recognizing this, hold that it is the best scheme of production and distribution which has been devised, and argue that many of the proposed remedies, such as socialism, the use of combinations tending toward control of particular kinds of production, whether by manufacturers or by agriculturalists, and even by consumers, will bring evils greater than are these wastes of competition.

We have, however, long since reached a point where a large group of investigators take it for granted that the competitive regime imputed to the classical economist's mind is and must be supplemented or abandoned. We have not yet reached a point where the schemes for abandonment as a practical program need seriously be considered. But there is, perhaps, a dominant feeling today that, while we may depend upon competition to maintain and increase private efficiency, that is the efficiency of the individual entrepreneurship, something more is necessary to bring about a proper correlation between individual activities, particularly between the efforts of producers or consumers of specific products, and so to promote general efficiency. As an eminent investigator put it some time ago, "effort within indi-

vidual or industrial units is carefully planned, between them it is planless."[1]

Two types of activity are suggested and in use: governmental assistance, such as is rendered through the crop estimates, and private coöperation as expressed in the combination movement and in consumer and producer coöperation. Both of these can avail to:

1. Improve market news.
2. Limit or increase production, as the condition of the market demands.
3. Improve the physical efficiency of central markets.
4. Improve transportation rates and efficiency.
5. Increase the standardization and the grading of products.
6. Bring about the elimination of unnecessary middlemen.
7. Control excessive profits.

In any criticism which may be made the investigator must be careful to balance properly the service rendered against the cost. Too often the former is forgotten. If the consumer demands great service he must pay. Criticism should be leveled at him rather than at those who render the service or at the market system. That is, the consumer should be criticized unless the very activities of those who render the service, or of others back of them, tend to increase the demands of the consumer for service. And even then the critic must be certain that the service itself is a bad thing or less desirable than something which has to be foregone, or that it is inefficiently performed or allows undue profits to be accumulated.

If there is a wide spread in price between producer and ultimate consumer, if fifty per cent or more of the final price of an article is the marketing cost, this does not necessarily indicate either inefficiency or excessive profits. On closer examination it may be found that neither of these things is present, that the service is actually costly, even though it is well performed. Or it may be found that what is done warrants an investigation not of the market but of human desires, or of modern large-scale methods of production and demand creation or of the nature and effects of modern railway rate structures. It is evident that the relative cost of marketing most commodities has been on the increase of late and that relatively more individuals and more capital are so engaged. In so far as this is a result of modern conditions in production and consumption, our investigation should start there. But in so far as our modern distributive system has reacted to bring about these conditions in production and consumption we return whence we started, and our field is the market organization.

Any investigation of market efficiency should start with certain things

[1] W. C. Mitchell, *Business Cycles.*

clearly in mind. Just so long as we have large-scale production and specialized producing units and production areas, just so long as consumers congregate in small areas far removed from the source of the products which they demand, and just so long as we possess wants which can be gratified only with products from remote sources, or products perishable physically or commercially, just so long we must have large markets and so, a large market organization. And the larger our producers become, the more we develop specialized production and production areas, the more our consumers congregate and the more numerous their desires become, the more important, and probably the more costly, the market machinery will be. That is, we must recognize for example that the benefits of specialization in production are in part offset by the increased costs of distribution. And this refers not merely to the cost of physical storage and delivery, but to the increased cost of financing, to the increased cost of the greater market risks which must be borne, and to the increased sales effort which the large producer feels that he must make in order to minimize these market risks. We soon reach in some industries a point where the increased costs of distribution—particularly transportation—offset any advantages of large-scale production. It may be that society will some day reach a point where it must consciously balance against such increased costs of marketing not only the advantages of large-scale production, but the advantages of further specialization by producing areas, and the pleasure the consumer derives from variety and service, just as individual consumers are constantly doing.

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